STATEMENT BY ROGER W. JONES, CHAIRMAN
U. S. CIVIL SERVICE COMMISSION
BEFORE THE HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
ON S. 2162

August 12, 1959

Mr. Chairman, I am glad of this opportunity to meet with the Committee to discuss the bill S. 2162 and other identical bills. I am accompanied by two members of the Commission staff who have done a considerable amount of work on health insurance legislation, Messrs. Warren Irons and David Lawton.

First let me say that the thoroughness with which your Committee has gone into this legislation has made a great contribution in clarifying many issues inherent in any new insurance plan. The testimony offered by earlier witnesses and the questions asked by the Members have brought into focus most of the major points which this Committee will have to resolve.

This legislation represents a pioneering effort in a complex field. We should not expect or seek to enact a perfect piece of legislation. Primarily we need a flexible bill, but definite enough in enunciated policies to permit discretion in handling problems which could not possibly have been anticipated despite the thoroughness of these hearings. It is certain that such problems will occur when it is remembered that the health insurance program contemplated by this legislation will be the largest employer program in the world. No one should expect that it will go altogether smoothly. We will make mistakes and we shall need leeway to correct them as rapidly as possible.

Since we at the Commission are the ones who, day in and day out, will have to live with this program, I should like to bring to the Committee's attention some of the problems we do anticipate. The fact that I shall here do little more than touch on the provisions of the bill involved should not imply that we take them lightly. I strongly urge the Committee to correct the problem areas we do recognize now.

CONTRACTING AUTHORITY

The bill as now drafted offers the Commission no guidance on the question whether each carrier of a Government-wide plan should assume the total risk under his contract or whether he should be required to share his rights and obligations with other insurers.

In drafting the Federal Employees' Group Life Insurance Act, this Committee insisted -- and properly so in my judgment -- that the prime carrier cede reinsurance to all other qualified and interested carriers according to an equitable formula.

Partly because this will be the largest health insurance program of its kind in the world, and partly to ensure fair treatment of all eligible carriers large and small, prudence and equity both dictate that a similar prescription be written into S. 2162.

STATUTORY BUREAU AND ADVANCE SUBMISSION OF CONTRACTS

Next, I want to mention section 13 and section 16 (a) of the bill. The one would require the Commission to establish a Bureau of Retirement and Insurance and the other would require that the Commission submit

copies of the proposed insurance contracts and regulations to this Committee and to the Senate Committee on Post Office and Civil Service.

I group these sections together because both are objectionable for similar reasons. They will freeze the organization and tie the hands of the Commission in administering the program. The latter will also complicate contract negotiations with the carriers. Neither section will contribute to the success of this program. Both are unnecessary, potentially harmful, and should be stricken from the bill.

THE ADVISORY COUNCIL

Like the statutory bureau and the advance submission of contracts, the composition and duties of the Advisory Council created by section 12 are objectionable because they would hamper administration.

The Commission is quite willing to assume undivided responsibility for the administration of this program. We are not willing to be held accountable for a program in which responsibility is divided as this bill would divide it. We do not need or want, as a partner in administering this health insurance program, an Advisory Council accountable to no one, and with duties which inevitably will put the Council into administration.

We do not believe that a statutory Council is necessary. If the Committee agrees that such a Council need not be prescribed in the bill, the Commission will seek competent outside advice whenever it becomes necessary to do so, and will include representation of employee organizations.

CONTRIBUTION STRUCTURE

I foresee another serious trouble spot; section 7 puts a limitation on the amount an employee may contribute. This limitation will preclude an employee from enrolling in some of the existing group practice prepayment plans. Subscription charges of at least one of these plans already exceed the maximum contribution permitted by S. 2162; rising costs may soon price other plans beyond the contribution limits of the bill.

The language of the bill promises the employee he may join an approved group practice prepayment plan. Section 7, as it is now written, may well operate to deny many employees enrollment in such a plan.

CONTINGENCY RESERVES

I have no wish to belabor the matter of setting aside a reserve to absorb contribution increases. If there is anything that has been well demonstrated at these hearings, it is that adequate reserves are necessary. You have heard expert testimony urging that 20% be set aside initially as a reserve. I believe we need a clear expression in the bill of Congressional intent that the Commission set aside a portion of the contributions paid into the Fund. Prudence demands that it be sufficient to forestall an increase in contribution rates or a reduction in benefits for the first few years of the program. No good experience data can be compiled if rates and benefits have to be changed each year.

HOW TO REMEDY THESE DEFICIENCIES

Mr. Chairman, in our report to you of August 5 we have made suggestions for necessary language changes to correct each of the points just mentioned.

We suggest, in addition, a number of perfecting, technical changes which will facilitate administration of the program. I do not wish to take the time of the Committee to describe these changes, but staff of the Commission is available at any time to work with your Committee staff to tie up these loose ends.

COST

The Senate hearings on S. 94 have convinced us that employees should have a free choice between an indemnity plan involving deductibles and co-insurance, and a so-called "service" benefit plan which insures against the first-dollar cost of hospital and surgical expense.

To our surprise and consternation, however, S. 2162, as it came to the House from the Senate, emphasizes the richest, most expensive kind of benefits -- benefits which are considerably greater than are provided by private employers except in the most unusual cases. As far as the Administration is concerned, the cost of providing these extremely rich benefits, plus the supplemental or major medical coverage mentioned in section 5 of the bill, is prohibitive.

In this connection, I am sure that the large majority of employees are more interested in how much they will have to pay for this insurance out of their pay checks than in exactly what benefits they will receive.

Most employees will expect better benefits from a Government-sponsored plan than those they now have, and will expect to pay somewhat less than they now do -- especially since the Government will match their contributions.

The maximum contribution which a married employee could now be required to make under the bill is $9.20 a month. Yet this is more than the average employee now pays. This Committee has heard prominent employee spokesmen say that a figure of around $7.00 a month is what the rank and file of employees can afford, and that $9.00 a month would price most of them out of the market. If the plan is to accomplish its purposes it must have the broadest possible coverage, the largest possible number of participants, and costs commensurate with both coverage and participation. We cannot leave out the lower paid employees and we must remember that the average salary of all civilian employees is about $5000. The take-home pay of these employees is already considerably less than $100 a week.

In contracting with the carriers, the Civil Service Commission will be strongly influenced not only by considerations of Administration fiscal policy but also by the impact of its negotiations upon the employee's pocketbook.

These factors make it necessary for me to record that if this bill is passed by the Congress and signed by the President, the Civil Service Commission proposes to negotiate and contract for the maximum benefits that it can obtain for a cost which will be in accord with the Administration's fiscal policy and within the financial reach of most employees. This will be a cost substantially lower than that which would be permitted

by the maximum contributions now set forth in the bill. We construe the language of the bill as clearly permitting this, and the Commission will exercise the discretion given us in the way I have described. We urge that there be no misunderstanding on this point and that it be clearly stated in the Committee's report on the bill, if the legislation is favorably reported.

In connection with cost discussions, I wish to make it clear that the Administration does not favor the 50-50 cost sharing features of the bill as it passed the Senate. We believe that the cost sharing should be in the 1/3 Government 2/3 individual ratio of the Federal Employees Life Insurance Act.

RETIRED EMPLOYEES

I cannot leave the discussion of cost without calling to the Committee's attention one matter which everyone should understand.

The Commission is on record as favoring free coverage for annuitants without the necessity for direct annual appropriations by the Congress. Our arguments for this have apparently not been convincing. In the interest of speedy enactment we have receded from our original free-coverage recommendation. But I would point out a little-noticed fact if the Committee will follow me while I do some simple arithmetic.

A retiree will contribute at the same rate as an active employee and the Government will match his contribution. But the cost of insuring a retiree is about three times that of insuring an active employee. This means that the sum of a retiree's contribution and the matching Government contribution will pay only 1/3 of the ultimate cost of benefits

provided. So that it will be a matter of record, I want to point out that there is no specific provision in the bill for paying the remaining two-thirds excess cost for a retiree. As the bill now stands, this two-thirds excess cost must come from the contributions for active employees, another reason for building adequate reserves.

DESCRIPTION OF BENEFITS

Another point in the bill on which I should like to comment has to do with the benefits as they are described in section 5 (a).

On the day after the Senate passed S. 2162 the Washington Evening Star ran a front page article itemizing in detail the benefits described in section 5 and stating further that these benefits were guaranteed. They are not guaranteed at all. The benefits will be whatever the Commission contracts for -- not those maximum benefits which are implied in the bill.

My point is that if section 5 misled the usually accurate Evening Star it will similarly mislead Federal employees throughout the country into believing they will get all the benefits mentioned in section 5 (a).

I urge the Committee to change the preamble to section 5 (a) to say that what follows are the types of benefits which may be provided; that the detailed description of benefits, such as the one on full cost of 120 days in the hospital, be eliminated; and that section 5 (b) also be stricken because it would then be superfluous.

RETROACTIVITY

Another troublesome area is the matter of retroactivity. The provisions in the bill which extend benefits to certain employees who retire between the date of enactment of the bill and its effective date should be deleted.

As in all beneficial legislation of this kind, a line must be drawn somewhere between employees who are eligible and those who are not. Hard-won experience in the fields of retirement, life insurance and pay convinces us that this line should be drawn at that point in time on which the enacted bill becomes effective generally. In this instance, moreover, a commitment has been made that health insurance for already-retired employees will be introduced in the near future. If legislation of this kind is enacted, employees who retire between the date of enactment and the effective date of the present bill will be accorded the same treatment as other employees who have retired too soon to quality for the benefits of S. 2162.

ASSOCIATION PLANS

The Committee has heard several pleas for including in the program non-labor employee associations which provide health insurance to their members. These associations consist mainly of numerous local plans which serve small numbers of employees in limited areas.

We know of the existence of more than 200 of them. I am sure there are at least as many more that we have not heard about. To allow them all to participate in the program would result in an administrative nightmare. If they are included, the Commission will, year after year, have to check into their corporate structures, their bookkeeping arrangements, their reserves, their methods of operation, their membership requirements, and the relationship between the benefits they offer and the subscription charges they require.

There are a few associations in addition to the labor organizations already mentioned in the bill which operate on a nationwide basis or serve an entire agency. These should be allowed to participate and can be by changing the language in section 2 (h) so that it does not limit participation to employee labor organizations.

I reach this conclusion not for reasons of administrative feasibility alone, although this is a most compelling reason. Most of these associations originally served a useful purpose by providing benefits of a type which employees could not otherwise obtain. Under this program employees will be able to obtain benefits as good as and in most instances better than those the associations provide. It is clear to me that their

usefulness and the purpose they originally served are at an end. Even if they are allowed to participate in this program, we believe that new employees will preponderantly choose to enroll in Government-sponsored plans. The associations will not attract new, good-risk enrollments and eventually will have to close their doors.

I would, therefore, recommend to the Committee that S. 2162 be changed to allow only associations of the types (nationwide or entire agency) I have mentioned to participate. If more than these are allowed to participate, I am convinced, based on our experience with similar associations under the life insurance program, that administration would be almost impossible and very costly. If a bill which permits all of these 200 and more associations to participate is sent to the White House, the Commission will have to give serious thought to recommending disapproval.

Mr. Chairman, I conclude by saying that we at the Commission have worked diligently for five years to obtain a health insurance program for Federal employees. The Civil Service Commission wants to see a health insurance program on the books and I sincerely trust that your Committee will favorably report out a bill in which all of the trouble spots I have mentioned have been corrected or eliminated.